November 1999 Prices and Economic Indicators

PRICE SUMMARY: In November, U.S. prices for soybeans and oil registered counter seasonal declines from already sharply depressed levels. In contrast, soybean meal prices continued to strengthen in the face of counter seasonal gains in corn prices. The price ratios for soybean/corn; soy meal/corn and soy oil/meal all registered counter seasonal weakness in November and all are below their respective 1999/00 forecasts. Crush margins and the hog/corn price ratio recovered sharply from last year's depressed levels. With low prices, improved margins and accelerating incomes abroad, soybean exports and the crush appear to be recovering. With meal driving the crush, oil stocks could build until palm oil output slows, excess rapeseed stocks are worked off and/or foreign oil demand improves. Oil's share of soybean product value has been in a down draft for 14 months. Since Oct. 1979, the three previous downswings in soybean oil's share of product value lasted between 15 and 38 months and averaged 27 months.

HISTORICAL PERSPECTIVE (1) In the past, most of the year-to-year changes in U.S. soybean supplies have been met with price adjustments which gear exports and crushing to available supplies with smaller changes in stocks. (2) However, since 1996/97, above average gains in foreign supplies from heavy investments in infrastructure has shrunk U.S. exports. (3) Reduced exports, higher yields from improved seeds and cultural practices together with some acreage expansion have caused substantial recovery in U.S. stocks. (4) The buildup in U.S. stocks has depressed prices for most oilseeds and products. (5) Last year, lower prices generated above-normal growth in foreign oilseed product usage, despite economic problems in some countries.

WHAT NEXT? (1) With abundant oilseed supplies, relatively low prices, and recent indications of improved real income growth in a number of countries, we expect some recovery in U.S. oilseed exports. (2) Less attractive producer prices may slow the expansion in oilseed planting abroad, particularly for high oil-content seeds. (3) That will allow global demand to catch up with supplies as stocks are worked off. (4) Although farm incomes have shown a high correlation with exports, the recovery in U.S. soybean exports will not spark price recovery until U.S. stocks are worked to lower levels. (5) We expect U.S. oilseed stocks to continue to build this season despite reduced output, reflecting a huge increase in the carry-in. (6) Beyond this season, U.S. soybean producers price prospects favor soybeans over corn and this would suggest that U.S. farmers will plant more soybeans next year. (7) With a large increase in U.S. carry-in stocks, we could see a double-digit increase in U.S. oilseed supplies in 2000/2001 unless poor crop conditions sharply curb yields. (8) If yields are on trend next year, even a strong demand recovery would not be enough to prevent another increase in U.S. oilseed stocks. (9) This would prolong the inventory cycle and hold global oilseed and product prices at sharply below average levels.

ASSUMPTIONS (1) In Y2K, global real income growth is expected to accelerate to 3.5 percent. (2) Combined income and population growth is expected to boost global usage of vegetable oils and oilseed meals by above-average rates of 5.8 percent and 3.7 percent, respectively. (3) With strong product demand and below-normal growth in global oilseed supplies, global oilseed ending stocks may be worked lower, particularly in South America, even as U.S. stocks continue to expand. (4) With global oil usage expanding at a rate of two-fifths above its 10-year average while global meal usage is expected to grow by only one-sixth above its 10-year average, global vegetable oil stocks will dip while U.S. vegetable oil stocks continue to build. (5) In December, the global oilseed output forecast was reduced slightly, reflecting minor cuts in some net importer countries. (6) With little change in the crush, the global oilseed ending stock forecast was edged lower. (7) Despite downward revisions in global oilseed supplies and ending stocks, global oil stocks exceeded the previous estimate, reflecting upward revisions in last year's olive oil output which was largely carried forward. (8) In December, the U.S. oilseed and product balance remains unchanged, except for larger rapeseed oil and meal imports which are expected to boost the U.S. oil carry-out and depress prices below the previous forecast. (9) Current forecasts show a 3-million ton cut in upcoming South American Oct-Sep 1999/2000 oilseed supplies following last year's 5.7 million-ton gain and a 11.8 million-ton increase in 1997/98. (10) If these forecasts are on track, this could benefit U.S. oilseed and product exports beginning in March-April 2000. (11) The expected divergence between U.S. and foreign oilseed stocks in 1999/2000 is precedented since U.S. oilseed stocks also rose in the face of falling stocks abroad in 1998/99, 1990/91 and 1985/86. There is no incentive for net-importing countries to build their inventories during market downswings.

KEY PRICE SHIFTS Annual percentage changes in November U.S. prices for selected commodities are as follows: coconut oil +17; 48% soy meal +7; corn combined livestock products +1; all US farm products -6; cash soybeans -18; soybean oil -38; and palm oil -49. Most selected commodity prices in November 1999 were below their respective 12-month averages, except soybean meal, coconut oil; and combined livestock products.

INDICATOR SHIFTS: U.S. indicators that exceeded their respective 12-month trailing averages in November include: the soybean/corn price ratio; soybean exports; the soybean crush; the wheat/corn price ratio; the hog/corn price ratio; the broiler/feed price ratio; the soybean crush margin: the meal/corn price ratio; the soybean/cotton price ratio; U.S. soybean oil stocks; and Malaysian palm oil stocks. In contrast, the oil share of soybean product value has been lagging its 12-month trailing average, reflecting the continuing build-up in stocks of major competing oils.

HISTORICAL PERSPECTIVE November 1999 prices with comparisons follow:

Commodity prices & price ratios	10-yr Nov Hi	10-yr Nov Lo	10-yr Nov Av	Nov. 1998	Nov. 1999
Soybeans at farm ($/bu)	6.90	5.36	5.95	5.39	4.35
Soybeans Nov. Fut. ($/bu)	6.94	5.67	6.24	6.08	4.96
Corn at farm ($/bu)	2.87	1.93	2.31	1.93	1.72
Soybean/corn ratio	2.79	2.23	2.59	2.79	2.53
48% Soy meal ($/s.t.)	251.5	144.5	195.7	144.5	154.7
Soy oil (cents/lb)	29.8	18.8	23.3	25.2	15.6
Soy meal/corn ratio	2.74	1.99	2.37	2.10	2.52
Soy oil/meal ratio	3.70	1.73	2.45	3.49	2.02

Key changes in November 1999 U.S. prices and ratios for selected commodities:

PRICES & RATIOS	Nov 99 dev. from Nov 10-yr av.	Nov 10-yr Av. dev. from 10-yr MY av.	Nov 99 dev. from 99/00 MY forecast	Nov 99 change from Oct 99
SOYBEANS	-26.9%	-0.7%	-7.4%	-2.7%
CORN	-25.5%	-4.5%	-4.4%	1.8%
SOYBEAN/CORN	-2.4%	4.0%	-3.1%	-4.4%
48% SOY MEAL	-21.0%	0.6%	1.4%	0.7%
SOYBEAN OIL	-32.9%	-3.1%	-3.8%	-2.8%
SOY MEAL/CORN	6.1%	2.7%	6.2%	-1.0%
SOY OIL/MEAL	-17.7%	-2.8%	-5.2%	-3.5%

Possible implications of the above changes include: (1) Depressed soybean/corn price ratios along with dry weather may curb the upcoming Southern Hemisphere oilseed harvest. (2) Lower grain prices should boost feed profitability and this could stimulate livestock output. (3) Higher meal/grain price ratios may limit meal feeding rates. (4) Lower oil prices reflect building global oil stocks from a year earlier and this will limit U.S. soybean oil exports unless foreign oil usage exceeds the current forecasts and/or palm oil output expansion in Malaysia and Indonesia slows from the recent above average growth rates. (5) The soybean oil/meal price ratio, which registered a counter seasonal drop in November may recover some after the palm oil output slows and U.S. vegetable oil stocks are worked lower.

FOREIGN OILSEED SUPPLIES Indigenous foreign oilseed supplies are expected to register a below average increase of 3.6 million tons, reflecting slower expansion in oilseed area and smaller soybean stocks in Brazil and Argentina on Oct. 1, 1999. This is a sharp contrast from the last three years when foreign oilseed supplies expanded by an average of 11.4 million tons per year. The upcoming South American oilseed crop yields will remain uncertain until March 1999. Currently South American oilseed output is forecast at 62.6 million tons or 1.4 million less than last year. The South American oilseed crush is expected to continue strongly, but oilseed exports and stocks are expected to decline.

U.S. OILSEED SUPPLIES Although output was 1.1 million tons less than last year reflecting slightly lower yields, U.S. beginning stocks of oilseeds were up 4.3 million tons last year. This boosted the U.S. oilseed supply increase by 3.2 million tons compared with 3.1 million tons last year. In 1999/2000, growth in U.S. oilseed supplies is expected to account for 47 percent of the expansion in global oilseed supplies.

GLOBAL OILSEED USAGE Although global oilseed supplies are up 6.8 million tons, usage is expected to grow by 7.5 million tons, reflecting recovery in real income growth in some Asian countries with meal demand driving the crush. The above-normal increase in U.S. oilseed supplies and below-normal gain in foreign oilseed supplies, is boosting U.S. oilseed exports and export sales, but exports and sales of meal and oil continue to lag.

U.S. TRADE: O**ilseed exports** are forecast at 24.5 million tons, or 1.9 million tons above last year, reflecting a 3.6 million-ton drop in foreign oilseed supplies, compared with last year's 11.3 million-ton increase. The current U.S. oilseed export forecast assumes that foreign oilseed ending stocks are drawn down by 1.9 million tons or nearly 11 percent.

Meal exports are expected to register only a 4 percent recovery, following last year's 23 percent drop, reflecting less soybean meal use in China and the EU-15.

In contrast, to the gains projected for U.S. oilseed and meal exports, U.S. exports **of vegetable oils** could drop 13 percent following last year's 18 percent drop. The fundamentals are unfavorable with: (1) Large rapeseed supplies in Canada and a number of net importing countries; (2) Above-average growth in Southeast Asian palm oil output through October; (3) Heavy current stocks of palm oil in Malaysia; and (4) Indications of reduced vegetable oil imports by India.

U.S. **oilseed and product export value**, excluding corn gluten feed and meal, is forecast at $8.6 billion, or 1 percent below FY-99, reflecting a 4 percent drop in export unit values, which will be largely offset by a larger volume. During the past decade, annual changes in U.S. oilseed and product exports ranged between +31 percent in FY-95 and -22 percent in FY-99. If dry weather in South America trims yields below our estimates, U.S. oilseed and product exports could benefit.

OILSEED STOCKS U.S. soybean ending stocks are expected to rise to 53 days of total use, compared with 49 days of use a year earlier and exceed its 10-year average by 29 percent. In contrast, foreign oilseed ending stock/use coverage is forecast to drop to 24 days of use, or 19 percent below its 10-year average.

PRICE IMPLICATIONS Despite the export recovery, above-normal supply expansion will boost U.S. soybean stocks for the third consecutive year. Three years of stock increases is precedented, but has not happened since the late 1970's and 1960's. This is expected to hold prices in the range of 5 percent below last year's $181 per metric ton weighted average price. Since ending stock use coverage is projected to be significantly above its 10-year average, soybean prices will likely continue significantly below the 10-year weighted average of $220 per ton. The current USDA soybean price forecast midpoint is $173 per ton.

U.S. MEAL DISAPPEARANCE In 1999/2000 U.S. oilseed meal usage is expected to increase 2.2 percent, or somewhat below its 10-year annual average growth of 3.3 percent, reflecting some reduction in pork production. With the November 1999 hog/corn ratio at only 19.1:1.0, or nearly double last year's depressed level, herd expansion is expected, but will take time. The next Hog and Pig report will be released on Dec. 28. Although broiler/feed price ratios are favorable, expansion flexibility is limited by the fact that most birds are gown under contract.

FOREIGN MEAL DISAPPEARANCE Expansion in total meal use abroad is forecast at 4.1 percent, compared with the 3.3 percent 10-year annual average growth rate. Despite higher meal prices, accelerating income growth may boost livestock output and meal usage in some countries. However, the mix will change with less soybean meal usage in China and the EU-15 while usages of domestically produced meals expand somewhat. Soybean meal usage will account for about 28 percent of global meal usage expansion, compared with 40 percent last year.

VEGETABLE OIL DISAPPEARANCE Expansion in U.S. vegetable oil domestic disappearance will accelerate sharply following last year's below-normal increase, while foreign oil usage continues at a sharply above-average pace. Foreign oil usage (beginning stocks plus output minus ending stocks) will exceed output by 0.2 million tons, but if foreign oil stocks drop as expected U.S. oil exports will decline.

GLOBAL PER CAPITA VEGETABLE OIL USE TREND World vegetable oil use is forecast at 14.06 kilos per capita or slightly above its long-term trend. If global per capita use continues its long-term upward trend, it would approximate 15.9 kilos in the year 2010. If global population grows to 6.86 billion and per capita usage continues on the trend, the world will need at least 110 million tons of vegetable oil in the year 2010.

VEGETABLE OIL STOCK/USE COVERAGE U.S. vegetable oil stocks are forecast at 42 days of total use, compared with 34 days last year. U.S. oil stocks will be 4 percent above its 10-year average of 41 days. Foreign vegetable oil ending stock/use coverage is projected to shrink 10 percent to 31 days of use or 16 percent below its 10-year average of 38 days. Global ending oil stocks are expected to cover only 34 days of use, compared with 36 days a year earlier, or 13 percent below its 10-year average. Unless global vegetable oil output exceeds our forecasts, and/or oil demand falls short of expectations, global vegetable oil stocks will continue below-normal. However, if U.S. oil exports drop as expected, U.S. soybean oil prices will be pressured by expanding stocks in coming months.

GLOBAL PALM OIL OUTPUT WILL SLOW Following 1998/99, when world palm oil output gained 13 percent to 19.3 million tons, the lagged effects of less favorable rainfall in Malaysia and Indonesia may cut this season's growth in half. If output growth is slowing, why are oil prices so low? The low palm oil prices reflect the sharp rise in stocks, up 70 percent from a year earlier to 2.8 million tons, or nearly 1.2 million tons more than a year earlier. However, after yields decline, stocks in the producer-exporter countries should normalize.

CHINA HAS SHIFTED GEARS The future focus of China's oilseed and product imports appear to be on oilseeds, rather than products, although it remains to be seen if the geographic distribution, capacity and efficiency of crushing capacity, there will prove adequate for their needs. Despite continued growth in China's oilseed output to nearly 45 million tons, China's oilseed imports are expected to continue to register double digit growth to 6.7 million tons, compared with only 0.4 million tons five years ago. U.S. soybeans and Canadian rapeseed are expected to account for most of the total. However, those gains come at the price of sharply reduced imports of vegetable oils and meals. Although China's vegetable oil imports may recover 10 percent from last year to 2.6 million tons that volume will be 40 percent less than five years ago. This season, U.S. vegetable oils will account for only 13 percent of China's oil imports, compared with 17 percent last year and 28 percent in 1997/98. Comparably U.S. meal imports to China will account for only 10 percent of the two million tons forecast, compared with 20 percent of the 4.7 million-ton volume in 1997/98.

INDIA NOW THE KEY VEGETABLE OIL IMPORTER India's vegetable oil imports may fall 0.4 million tons reflecting unreported stock changes following last year's 2.2 million-ton import increase. Nevertheless, India with strong income growth will continue to be the world's leading vegetable oil importer, at 3.7 million tons, or 3.1 percent of world exports. Despite India's growing indigenous oilseed output, its vegetable oil imports will be five and one-half times the 1994/95 volume.

US SOYBEAN DISAPPEARANCE During the 12 months ending Oct. 1999, U.S. soybean disappearance (crush plus exports) approximated 2.45 billion bushels, or 1 percent above the same 12 months a year earlier. Nov. 1999 was the first month in the resumed expansion of the 12-month U.S. soybean disappearance, following 11 consecutive months of decline which bottomed in Feb. 1999 at 2.29 billion bushels. In coming months, U.S. 12-month trailing soybean disappearance should continue to strengthen and exports will lead the way. U.S. soybean disappearance in the 12-months ending Aug. 2000 is forecast at 2.475 billion bushels, or 3.5 percent above a year earlier. Although, it is still too early for definitive estimates of South American oilseed output, the combined soybean stocks on Oct. 1, 1999 in Argentina and Brazil is estimated to be 1.6 million tons less than a year earlier.

SOYBEAN PRICES The mid-November U.S. farm price for soybeans was down 19 percent from a year earlier and 3 percent below the previous month. During the last decade, November U.S. soybean prices averaged 0.7 percent less than the complete season weighted average price, but 4.8 percent under the average annual monthly peak. Although the November 1999 price was 27 percent below its 10-year average, it is only 7.4 percent under the midpoint of the current USDA season average price forecast. Using season to-date prices and the projected increase in ending stock/use coverage, U.S. soybean prices are expected to be in the range of 5 percent less than last year. Seasonally, cash soybean prices are unlikely to exceed the year earlier levels before Mar. 2000. However, possible seasonal strength should not be construed as a cyclical price reversal, because continued expansion in U.S. planting and yields could continue to build U.S. stocks, unless unfavorable yields cause a substantial supply shortfall.

CORN PRICES In mid-November, U.S. producer prices gained 2 percent from the previous month, but remained 11 percent below a year earlier. Despite some recovery, the November price was 25 percent under its 10-year average for that month. During the past decade, November prices averaged 4.5 percent under its complete season weighted average and ranged between 11.9 percent under in 1994/95 and 3.3 percent over in 1997/98. In November, the corn price was 4.5 percent below the midpoint of the current USDA 1999/2000 MY price forecast.

SOYBEAN/CORN PRICE RATIO In November, the U.S. soybean/corn price ratio dropped 4 percent from the previous month and 9 percent below a year earlier. The recent ratio was 2 percent below its 10-year average for that month while oilseed planting in the four major South American countries, still in process, is estimated at 27.8 million hectares, compared with 28.0 million hectares last year. This follows, above-average ratios in 1998 and 1997 which resulted in significant oilseed planting expansion. In contrast, U.S. oilseed area was about unchanged in 1998 at 35.3 million hectares, but increased nearly 6 percent in 1999. If price prospects for new crop soybeans remain favorable in relation to competing crops, U.S. oilseed planting will continue to expand next year.

SOYBEAN MEAL PRICES November U.S. 48-percent soybean meal prices rose 1 percent from the previous month, but remain a bargain at 21 percent under its 10-year average for that month. Meal prices are in a recovery phase with the Nov. 1999 level 17 percent above the previous season's monthly low in last February. The recent soybean meal price was slightly above the midpoint of the current USDA 1999/2000 price forecast, but that forecast is 21 percent below its 10-year average. During the past decade, November soybean meal prices averaged 1.4 percent over the season average price, but on an annual basis November prices ranged between 32.2 percent over the 1997/98 average to 13.5 percent under the 1995/96 average.

SOYBEAN MEAL/CORN PRICE RATIO In November, the U.S. 48-percent soybean meal/corn price ratio at 2.52:1.0 was 20 percent above a year earlier and 6 percent over its 10-year average for that month. The higher meal/corn price ratio, and reduced pork production are expected to curb the growth in U.S. meal usage. During the last decade, the November meal/corn price ratios averaged 7 percent over its 10-year annual average and ranged between 10 percent under in 1995/96 and 23 percent over in 1997/98.

PALM OIL PRICES Because of the 87 percent increase in Malaysia's Nov. 1, 1999 palm oil stocks from a year earlier, f.o.b. prices for refined-bleached-deodorized (RBD) palm oil dropped 49 percent from a year ago. In Nov. 1999, Malaysian palm oil was priced 3 percent less than Decatur soybean oil, compared with 17 percent over a year earlier, reflecting the sharp increase in stocks in Malaysia. However, when Malaysian oil output expansion slows and stocks are worked lower, palm oil prices will recover somewhat.

SOYBEAN OIL PRICES In November, U.S. soybean oil prices dropped 3 percent from October to 14 percent under a year earlier. During the past decade, the November soybean oil price averaged about 3.1 percent under its annual average and ranged between 19 percent under in 1991 and 28 percent over in 1995. The November 1999 oil price is 4 percent below the midpoint of the current USDA soybean oil price forecast. However, the double digit increase in this season's vegetable oil carry-in stocks abroad will hurt U.S. oil exports and depress prices as U.S. oil stocks build. However, if foreign oil use registers above-average growth at 6.1 percent, ending stocks of oil abroad could dip to only 32 days of use, or 16 percent below its 10-year average. This would set the stage for a possible recovery in U.S. vegetable oil exports in 2000/2001.

U.S. OIL/MEAL PRICE RATIO In November, the U.S. soybean oil/48 percent meal price ratio dipped 3 percent from the previous month to only 2.02:1.0. This was 18 percent below its 10-year average for that month and 42 percent below a year earlier. During the last decade, this ratio has ranged between 1.55:1 in May 1997 and 3.90:1 in Dec. 1994. Our current forecasts indicate that the oil/meal price ratio will continue sharply below average in coming months. The soybean oil/meal price ratio is currently depressed by above-average expansion in palm oil output expansion in Southeast Asia, as well as slowing vegetable oil imports by India. However, slowing palm oil output growth and accelerated oil imports by China could reverse the low oil/meal price ratio next year.

U.S. FEED PROFITABILITY Although unchanged from a month earlier, the feed profitability was 3 percent above a year earlier and 6 percent above its 10-year average. The recovery in U.S. feed profitability reflects abundant grain supplies and low feed ingredient prices, as well as reduced pork production. In November, the hog/corn ratio surged to 19.1/1.0, or 96 percent above the depressed year earlier level. The improved profit outlook should boost pork output in 2000/2001. Although the November 1999 broiler/ feed price ratio was 7 percent below a year earlier, it was 37 percent above its 10-year average. Despite reduced pork output, U.S. broiler output (produced largely under contract) is forecast to grow only 4.7 percent in 1999/2000, compared with 6.7 percent last year. If these forecasts materialize, there will be little or no growth in U.S. meat production in 1999/ 2000 and slower growth in U.S. meal usage.

CRUSH MARGINS After an extended period of depressed levels, soybean crush margins have significantly improved in recent months. The improvement reflects prospects for increased soybean stocks and depressed soybean prices in the face improving feed profitability, meal demand and meal prices. In November, the U.S. soybean crush margin was 50 percent below a year earlier, but still 17 percent below its 10-year average. In contrast, November farm prices for soybeans were 19 percent below a year earlier and 28 percent below its 10-year average. Thus, crush margins now account for a larger share of soybean product value.

Alan Holz PH (202) 720-0143